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Kahn, Otto Hermann

A plea for prosperity

New York City, N.Y.

[1922]

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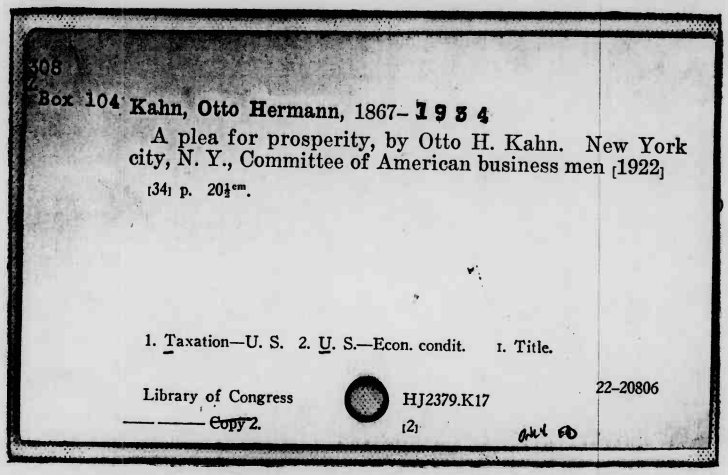

308
Box 104 Kahn, Otto Hermann, 1867- 1934
A plea for prosperity, by Otto H. Kahn. New York city, N. Y., Committee of American business men [1922]
[34] p. 20½cm.

1. Taxation—U. S. 2. U. S.—Econ. condit. I. Title.

Library of Congress HJ2379.K17 22-20806
Copy 2. [2]

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DATE FILMED: 3-4-97 INITIALS: MS

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BIBLIOGRAPHIC IRREGULARITIES

MAIN ENTRY: Kahn, Otto Hermann

A plea for prosperity

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A Plea For Prosperity

BY

OTTO H. KAHN

Published by
The Committee of American Business Men
354 Fourth Avenue
New York City, N. Y.

IMPORTANT

DEAR SIR:

That there may be discussion on the very essential questions of taxation reform, The Committee of American Business Men sends you the enclosed speech by Mr. Otto H. Kahn, who, in the present economic crisis, has been one of the few men to speak with courage and vision.

The Committee, with a desire to be guided as to what is the real public opinion of the country, invites your comment and suggestion.

Committee of American Business Men,
George Henry Payne, Secretary,
354 Fourth Avenue,
New York City.

A Plea For Prosperity

BY
OTTO H. KAHN

Published by
The Committee of American Business Men
354 Fourth Avenue
New York City, N. Y.

A PLEA FOR PROSPERITY

An Address Delivered Before the Association of Stock Exchange Firms, New York City, on February 3d, 1922.

By OTTO H. KAHN

THIS country of all countries ought to be the home of prosperity, blessed as it is with boundless natural resources, unmeasured in the scope and diversity of its opportunities, situated on a continent which long has been and promises to remain the abode of peace, peopled by a race enterprising, hard-working, intelligent, and orderly, and living under wise and stable political institutions. We have come out of the war with our strength practically undiminished and our relative position among the nations greatly enhanced. Yet, for two years we have walked in the shadow of severe economic depression, and if we look the facts straight in the face, while we can and do see much improvement and distinctly better prospects, we cannot honestly say that a return to the usual buoyancy of American enterprise, to abundant employment and to the normal conditions and rewards of trade, manufacture, and agriculture is yet plainly within view.

Why should this be so, in a country which has been noted heretofore for its resiliency, its quick and vigorous rebound from periods of depression? Why, in the present instance, should the road of re-

covery be as regrettably and stubbornly slow and difficult as it is being found to be?

There are a number of reasons, some of them not within our control, such as the fatal consequences of the faultiness of the abortive peace treaties of Versailles, St. Germain, Sévres and Trianon, and the unceasing wrangling on the European continent. But one of the principal causes militating against a return to normal prosperity in this country it is in our power to eliminate whenever it may please Congress to do so, and that is the clumsy, disingenuous and mischievous system of taxation adopted in 1917 and, although twice amended since then, still continuing in the wrong-headedness of its underlying principles.

* * *

Leaders Opposed Tax Laws

It is interesting to note that the extreme surtax rates embodied in our revenue measures since 1917 do not represent the advice and judgment of the responsible leaders of either of the great political parties, nor the vote of the House of Representatives as enacted in the bills sent by the House to the Senate, nor even the judgment of the Senate Committee specially charged with the function of studying and recommending measures of revenue-raising.

In 1917 the recommendations of the Committee in charge were set aside by the assault of a group of radical Senators who stampeded their colleagues into voting for much higher surtaxes than had resulted from the deliberations in the calmer and more responsible discussions of the Committee room. In 1921 the House of Representatives voted to reduce the highest surtaxes to thirty-two per cent and the Senate Committee adopted the same rate, only to reverse itself at the bidding of a group of Senators who successfully insisted upon far higher rates of surtaxes than had been fixed by the vote of the House and by the original vote of the Senate Committee. A Democratic President and a Republican President, three Democratic and one Republican Secretaries of the Treasury have advocated an adequate reduction of our extreme surtaxes. Yet this evil and the country-wide damage flowing from it remain uncorrected, for the slight modification effected last year is no correction.

The underlying trouble with our whole scheme of taxation is that it is based upon, and actuated by, not plain business-like consideration of revenue-raising, but social experimentation plus class and sectional animosity. The aim, when that scheme originally was enacted into legislation, was to "take it out of" the few and "out of" the mainly industrial states, primarily the east. The crudity of that theory was covered by the formula "taxation according to ability to pay." That is a formula to which fair-minded and right-thinking men will give adherence in principle, but it must be applied within the limitations of the rule of reason and with that discrimination which takes account of practical considerations and consequences; else, it is bound to become mischievous and a breeder of great harm, as indeed it has become.

At one fell swoop our system of taxation, such as has been in force practically since the beginning of the Federal Government, was utterly revolutionized. Direct taxation was raised suddenly and in a manner unequalled and unprecedented in any other country,

from a small fraction to approximately eighty per cent of our total revenue. It was a measure of economic violence, only partly justified and called for by the exigencies of war, and was bound to lead to an intensity of economic trouble and maladjustment corresponding to the degree of its violence.

* * *

Burdensome To All

A good deal may be said for the contention that, right or wrong, the theory of taxation inaugurated in 1917 was in accord with the then prevailing popular sentiment and had to be given a trial. I am inclined to agree with that contention, but I do not agree that the satisfaction of popular sentiment required that, in applying that theory, we had to go to the extreme to which, under the whip and spur of the radicals, Congress did go. The composite thought of the American people does not run to extremes.

At any rate, the innovation of 1917 has now had a trial of more than four years. We have seen the theory applied in practice for a length of time amply sufficient to test it out. The result is writ large in effects hampering and troubling to the nation and burdensome to all, but particularly to those who were intended to be beneficiaries of that theory, *i. e.,* the plain people. It is an old and sad truth that the effect of economic blundering by governments is always felt most by those least able to protect themselves. You cannot "take it out" of the few and "out of" the east without also "taking it out of" the poor and "out of" the west and south. The principles of the revenue measure of 1917, re-enacted essentially unchanged for 1918 and 1919, and not modified to any adequate degree in the measure of 1921, stand disclosed as breeders of harm to all the people by the inexorable test of actual experience.

It is a measure unscientific, inequitable in its operation, cumbersome, vexatious, and intolerably complex. It bears the imprint of class and sectional discrimination. It penalizes thrift and industry, but leaves the wastrel and shirker untouched. It discourages, disturbs, and impedes business and places the American business man at a disadvantage as against his European competitor in the markets of the world. It tends to curtail production, it halts enterprise, it diminishes the demand for labor, it restrains consumption, it makes for higher costs. Its effects depress agriculture. It facilitates governmental extravagance. It impairs largely the incentive to effort and to self-denial and saving. It hampers and intercepts and deflects the vitalizing flow of capital. It depletes the necessary cash working fund of industry and stands in the way of that accumulation of new capital which is indispensably requisite for development. It has shoved a clumsy hand into the delicately adjusted organization of our commerce and industry. In short, it is bound to interfere, has interfered, and does interfere gravely and in many ways, direct and indirect, with the needs and the attainments and the prosperity and progress of the country.

And, at the same time, by reason of their very extremes, the high surtax rates have defeated their own purpose, or rather that of their advocates. The country is afflicted with all the hampering and troublous consequences flowing from the operations

of a draconic statute, without even gaining the advantage of the revenue which was supposed to result from it. The higher brackets of the surtax schedule have ceased more and more to be productive. To a considerable degree they have abolished themselves, but in the wrong way. To the extent that they are collected they penalize the working capitalist, the man engaged in active business and in productive enterprise, as against the idle capitalist who simply puts his funds into tax-exempt securities. According to the latest published official figures, the higher surtax brackets produced but one-third, approximately, of what they produced in the first year of their existence, and for the period elapsed since that publication they will unquestionably have yielded still less. Quite apart from the plain way of avoidance, through investment in tax-exempt securities, they challenge the ingenuity of those subjected to them, as every extreme statute does, to find permissible means of escape from their rigor.

Governmental greed, just like private greed, is apt to over-reach itself. Many transactions on which those concerned would willingly pay a moderate tax are now simply being laid aside and not effected at all because of the intolerable taxation to which they would be subjected. Others are being concluded in an artificial, round-about, unsatisfactory way so as to avoid the full burden of the tax. The result in either case is a loss of revenue to the Government and an impediment to business. I have personally no doubt that surtaxes imposed at a reasonable rate would produce a larger revenue than do the excessive rates now in existence. As the rate of surtaxes is lowered, the aggregate amount of income subjecting itself to taxation will be largely increased. A decrease in rates will bring an increase in volume.

* * *

A Plausible Fallacy

We have heard it said that what is effected by our high surtaxes is simply a dislocation or redistribution of funds and nothing more. The money taken by these taxes does not vanish, so it is contended; it is merely taken out of the bulging pockets of the rich and put into general circulation again through being expended by the Government.

That has a plausible sound, but the sound gets fainter the closer you come to it:

First, money in the hands of the Government cannot possibly be anywhere near as active and productive and fructifying as in the hands of individuals. There are many reasons for this all too well attested fact, especially under democratic institutions, one of them being that unlike the individual, government is not stimulated by the expectation of reward, nor deterred by the penalty of failure, nor subject to the spur of competition. Money engaged in private business is continually and feverishly on the search for opportunities, *i. e.,* for creative and productive use. In the hands of the Government, under its necessarily bureaucratic and routine regime, it is bound to lose much of its energy and striving, and all of its dynamics and daring, and to sink instead into placid and somnolent repose.

Secondly, there are two kinds of savings or accumulations. They arise from different sources and are put, generally speaking, to different uses.

The first kind, *i. e.,* small individual savings, have

been little, if at all, affected by taxation for the simple reason that taxation did not, or did hardly apply to them (except, indirectly, as taxes were shifted and passed on, and to the extent that they were so shifted and passed on, the effect was largely offset heretofore by increases in compensation). The fact is that persons with annual incomes up to say four thousand dollars paid either no income tax at all or but a trifling amount. It is the distinguishing characteristic of our income tax, wherein it differs from the system prevailing in all other countries using income taxation, that it does not rest on a basis of the broadest kind. Our tax applicable to small incomes is almost negligible. Our "normal tax" is less than a quarter of what it is in England. The minimum income totally exempt from taxation is fixed at a much more liberal figure here than in England or in any other of the leading countries. On the other hand, our surtaxes are higher than anywhere else. The emphasis of our income tax is not as it is elsewhere, on the broadly collected normal tax, but on the surtaxes, collected from a relatively small number.

Investigation has demonstrated that of the total income of the nation nearly nine-tenths goes to those with annual incomes of five thousand dollars or less, leaving but slightly more than ten per cent of the national income allocated among those with annual incomes exceeding five thousand dollars. In the face of this, the last published report of the Treasury Department shows that those with annual incomes up to five thousand dollars (receiving as they do nearly ninety per cent of the national income) pay altogether approximately ten per cent of the total sum collected in income and surtaxes, while those with annual incomes above five thousand dollars (receiving ten per cent of the national income) pay about ninety per cent of the total sum so collected.

The small individual savings to which I have referred in the preceding paragraph take the shape mainly of deposits with savings banks, building and other fraternal societies, life insurance companies, and of late years, to a certain extent, of investments in high interest-bearing bonds. They (these savings) also provide, unfortunately, the principal portion of the livelihood of the "get-rich-quick" promoter.

The second kind of savings are the accumulations by the well-to-do and by corporations. They are, and ought to be in the main, the risk-taking, venturing, pioneering part of the country's working fund. They provide the bulk of the capital for such enterprises as cannot be financed by fixed interest-bearing investment securities because of the absence of the element of tested earning power and assured safety, or by bank credits.

That kind of savings has been vitally affected by the surtaxes.

Small mass-savings, the wide practice of thrift, are, of course, eminently to be desired, and in an old, settled, fully developed country, such as the classical land of small savings, France, go a long way, by themselves, to serve adequately the nation's essential economic purposes and needs. In a new country, however, such as ours, a country still in the growing period of youth, a land of boundless opportunities and possibilities, they must be supplemented by that kind of accumulation, by that eagerness for indus-

trial adventure, which, for the time being, have been benumbed by the effects of ill-contrived taxation.

Indeed, except insofar as taxes were shifted or passed on, that kind of accumulation has been in a great measure destroyed by the operation, direct or indirect, of such taxation, and to the extent that it was enabled to survive, has been largely diverted from its proper and useful functions because the incentive to venturing and risk-taking and to the utilization of the ordinary avenues of investment has been so largely eliminated. *New* enterprises, imaginative venturing, the characteristically American way of bold industrial pioneering, have largely come to a halt in this country. The barrier which stands in their way is composed of piled-up surtaxes.

It is a deplorable result, from various points of view, and of gravely inauspicious significance in its bearings.

* * *

Free Flow of Capital Vital

The free flow of capital, the reasonably normal working of the machinery which supplies the funds for the country's trade and industry, are absolutely basic elements for prosperity. The effect of their disturbance to any serious degree for any length of time is all-pervading, even though the way in which that effect is produced and operates is not always apparent to the casual observer who is apt to seek elsewhere for the causes of the resulting disturbance. Every industrial activity, including that of farming, is affected more or less profoundly by that manifold and subtle interference with the normal processes of accumulation and usage of funds which is the concomitant of excessive surtaxes.

The measure of accumulation of surplus which is absolutely indispensable for the conduct and due expansion of the country's work and business, is prevented by the existing taxation all the more effectively, as business men, of necessity, have only a limited amount of their capital in the form of liquid or quickly realizable assets, and it is just these assets which are absorbed by taxation. Taxes must be paid in cash. You cannot pay them in materials or merchandise or bills receivable or book assets. But while the outgo in taxes payable to the Government is all cash, the income of most businesses is cash only to a limited extent.

If men engaged in industry cannot accumulate adequate working capital, using for that purpose the results of individual thrift and foresight, *i. e.* their surplus earnings from year to year, if such earnings are appropriated to an undue extent by the Government, the result is bound to express itself in two stages of economic disturbance. The first stage is a scramble for loans and credits in such volume as to bring about a dangerous and harmful strain and a severe stringency of bank and investment funds, particularly troublesome in its effect upon the smaller and less well placed borrower. The second stage is a collapse in trade and a corresponding reduction in production, consumption, and employment, forced liquidation, and a sudden, violent, and ill-proportioned shrinkage in values. An accompanying and, in a sense, deceptive feature of that second stage, is a relative abundance of credit and loan funds and an easing of money rates.

For reasons both of a psychological and economic character, it has always been, and inevitably and

logically must be, one of the effects of a serious industrial recession that a flow of funds is set free. Indeed, so strong is that flow and so compelling the impulse which sets it in motion that, for the time being *i. e.* pending a return to normal industrial activity, it has largely mitigated the effect of excessively high surtaxes on the money and investment market. But that effect is bound to become operative again when full industrial activity returns, unless our surtax rates are reduced to a more reasonable level in the meantime.

* * *

Our Burden Clumsily Placed

For many years prior to the war, America's development proceeded by leaps and bounds, and the people prospered under a scheme of taxation which sat so lightly on everybody that the subject of taxation was one of but slight general concern. If taxation has now become one of our major problems, a matter of universal complaint, unceasing discussion, and grave burdensomeness, the reason is to be found not so much in the increased revenue requirements arising from the war,—for these requirements, while heavy as compared with the past, are well within the country's capacity to bear if wisely ordered, and are, in fact, relatively moderate as contrasted with the fiscal burdens resting on the principal nations of Europe. Rather is the reason to be found in the stubborn adherence to a faulty system and ill-judged methods of taxation.

In the recent past, by constitutional amendment, we introduced into our tax system the principle of the progressive income tax, which I wholly approve as economically sound and socially called for. But there is a limit beyond which such taxation cannot go without absorbing so large a proportion of the nation's liquid capital and so draining and driving it away from its normal channels and fructifying activities, as to bring about that hurtful strain and derangement which we have seen exemplified in the past two years and which will continue to trouble us to a greater or lesser degree until we resolutely remedy the cause.

I received recently a letter from an officer of one of the leading Mortgage Companies, containing the following sentence eloquently illustrative of some of the effects of excessive surtaxes: "In three years, our Company has had to re-pay more than one hundred million dollars of mortgages, which in the past we had placed among investors. Inquiry elicited the fact that ninety per cent of these mortgages were called because of the surtaxes." The Secretary of the Advisory Council of Real Estate Interests of the City of New York has testified that: "The withdrawals from mortgage investments in real property in the Borough of Manhattan alone during the first six months of 1920 amount to approximately eighty-three million dollars net."

The wisdom and necessity of preserving a reasonable balance between direct and indirect taxation stands clearly revealed by the troublous results which the extreme application of direct taxation has produced for all the people (though it was mistakenly expected to be troublous to a small minority only) and inevitably will produce increasingly and cumulatively the longer it is continued.

For a country as immensely rich and intrinsically as little burdened, relatively speaking, as ours, it is not really a hard problem to raise by taxation the

sum which the economical administration of our government requires, without causing the sinister and pernicious effects that our present method of taxation has brought about. And that is feasible without impairing the fortunate and desirable circumstance that in our country those of small or moderate means are taxed far less, both directly and indirectly, than they are in any other of the leading countries. The alternative is not to burden unduly either business or the masses of the people. The idea is not, and ought not to be, to relieve the former at the expense of the latter. The end that should and can be attained by proceeding wisely and in recognition of the facts which experience has demonstrated unmistakably, is to benefit both business and the masses of the people.

Everyone who has ever had to carry a heavy load knows that the secret of bearing it with relative ease, lies in the way in which it is adjusted. Our tax burden is grossly maladjusted. By re-arranging it, we shall vastly lighten the pressure upon the backs of the American people.

* * *

Industrialism Or State Socialism?

It is instructive to compare our surtaxes with those prevailing in England, a country no less democratic than ours, and admittedly, among all the peoples, the nation most experienced, wisest and soundest in the ordering of her public finances. England raises by taxation approximately one billion pounds, equal, at the present rate of exchange, to something over four billion dollars, but actually, comparing the domestic purchasing power of the pound sterling to that of the dollar, equal to considerably more than five billion dollars. Our requirements to be met by taxation are but little in excess of three billion dollars. We have twice the population and, probably, three times the national wealth of England. Yet, we resort to far higher surtaxes than England.

Our maximum surtax rate, even after the recently enacted revision, is still fifty per cent (not counting state income taxes). The maximum surtax rate in England is thirty per cent. (True, England's *normal* income tax rate is thirty per cent—with certain allowances on small incomes—while our normal tax is four per cent on the first four thousand dollars of taxable income and eight per cent on incomes above that amount. But that fact does not weaken; indeed it rather strengthens the principal point of the comparison. Moreover, the English income tax is less sweeping in its application than ours. For instance, *profits* made by a person otherwise than in his regular trade are not subject to the income tax at all in England, thus encouraging the spirit and practice of pioneering, venturing, and development.)

There are only two ways in which the working fund and the energy needed for the conduct of the nation's industries can be provided. The first one is to give free scope to individual initiative, enterprise, and responsibility, subject to reasonable control and to the watchfulness of public opinion, and to stimulate men to effort, to thrift, and to self-denial, by the incentive of reward. Under that system, the leading nations of the world, and especially this country, prior to the war, had arrived at a condition which, though still far from giving ground for complacent self-approbation, did offer to the masses of the people an aggregate of more widely diffused

prosperity, fairer opportunity, better living conditions, and a greater share in the comforts of life than had ever been attained before. The second way is to look to the state for being the universal dispenser and provider and regulator. That is socialism, or, in its more thorough-going manifestation, communism, as eloquently exemplified in Soviet Russia.

It is impossible for the method of individualism, on which our economic, social, and political system is based, to function adequately if both the growth of capital resources needed for industry, and the reward of effort and risk, continue lastingly to be curtailed as drastically as they are curtailed under the existing scheme of taxation. The two things and aims are simply not reconcilable.

The whole theory, never, prior to the war, tried in practice or countenanced by public opinion, of levying huge toll on the usefruct of capital and the material reward of energy, ability, and enterprise, is not workable. The conception of piling enormous taxes on the top in the expectation that they will not percolate downward, is fallacious.

In this, as in other matters, we are face to face with the necessity of making our choice between the theory and practice of individualism, ever adapting it to the changing needs and the social progress of the day, but retaining its tested and solid basis, and the theory and practice of socialism, near-socialism, communism and kindred symptoms, by whatever name they may be called.

* * *

Some Aspects of Inheritance Taxation

The observations which I have submitted in respect to extreme surtaxes, hold good equally in respect to unduly high inheritance taxes. I am convinced that progressive inheritance taxation ought to, and will, continue as a permanent feature of our fiscal policy,* but, as in the case of surtaxes, the rule of reason and moderation must be applied in determining the limit to which such taxation can be imposed without defeating its own productivity and causing serious harm to the community at large.

To a certain degree inheritance taxation, in its very nature, has the economic ill effect of impairing or sometimes even destroying that which a lifetime of individual effort and planning has created. Values and assets thus impaired or destroyed must be re-created, else production must fall behind.

That means a duplication of work for each generation, a waste of national energy, and thus a loss to the community.

Another ill effect inherent in the present practice of inheritance taxation is that by such taxation a portion of the *capital fund* of the nation is transferred into the coffers of the Government, and by it used for operating expenses. That is a fundamental breach of the laws of sound corporate administration. Its result, in the long run, unless the rate of taxation is kept within moderate limits, is bound to be the same in impairing the necessary cash working funds of industry (and, incidentally, in destroying at last the productivity of the tax itself) as the operation, above pointed out, of excessive surtaxes.

*It seems to me that the rate at which inheritance taxation is applied ought to be determined not by the aggregate of the estate, but by the size of the distributive shares. Under the present Federal system, an estate bequeathed to one single descendant is taxed at the same rate as an estate divided among, say, six descendants. That is manifestly unfair and socially undesirable.

Moreover, there is inevitably present in inheritance taxation that element of social undesirability and of unfairness that it leaves entirely untouched the wastrel who never laid by a cent in his life, and penalizes him who practised industry, thrift, and self-denial.

It is a well-known fact that one of the most powerful inducements for men to work and save and spend themselves in effort, is the thought of those whom they will leave behind, and the desire for the perpetuation of that which they have built up. If that inducement is too greatly reduced, it is open at least to serious question in what degree effort and thrift will be diminished, self-denial be displaced by self-indulgence, and one of the strongest driving forces hitherto among those elements which make the wheels of the world's activities go round, be thus attenuated.

The privilege of handing down property by will is an essential part of the price which through many centuries the community has found it well and useful to pay as an incentive to men to work to the full measure of their capacities, as an inducement to save and to build up, and from other motives of even more fundamental import. And if the result is tested by the material progress and enhanced productivity of the world and the increased well-being of the people, it appears worth the price. At least, no other means has yet been invented and stood the test of practical working, which can be relied upon to produce the same result.

This entire matter of inheritance taxation, which on the surface seems so simple and non-controversial and is so appealing to one's sense of natural justice has, in fact, manifold and complex and far-reaching repercussions, but it would exceed the bounds of this discourse were I to enter into a consideration of the subject beyond a few cursory observations contained in the foregoing paragraphs.

* * *

How to Restore Normal Conditions

To come now to concrete conclusions, I am clear in my mind that in order to restore "normalcy" to our economic life and industrial activities, our surtaxes should promptly be reduced to the figure courageously recommended and convincingly advocated by the Secretary of the Treasury in his latest report to Congress, namely, a maximum rate which, including the normal tax, does not exceed thirty-three per cent. But, assuming that Congress will come to see the wisdom, and, indeed, in the long run, the necessity of such a reduction, it is inconceivable from the point of view of practical politics that it will be adopted without a simultaneous reduction of the normal tax and a downward revision of the entire scale of surtaxes. While, as I have said before, a reduction of the highest surtax brackets by themselves would not mean, in my judgment, a diminution of the yield (because as the rate is lowered the aggregate amount of income to which surtaxes apply, will increase) a downward revision of the whole structure of normal and surtaxes would doubtless result in a reduction of the revenue derived from that source.

Therefore, we must look for a new source which can be tapped in order to make up for that deficiency. I know of none which offers so many advantages and

is so free from objections as the so-called sales or turn-over tax.

I first suggested a tax of that nature in a pamphlet which I wrote in the early summer of 1917. The suggestion met with little encouragement either in business or political circles. I felt a natural disinclination to come forth as an active propagandist for such an enactment, because by so doing I should have exposed myself to the accusation that I was selfishly and disingenuously advocating a form of taxation that would benefit my own pocket at the expense of the great bulk of the consuming public. I knew then, as has since been amply demonstrated, that, as a matter of fact, the excess profits tax and the high surtaxes, would have the effect of enhancing costs to an extent far more burdensome to the people than a trifling sales tax could possibly do, but I felt that I should be a voice crying in the wilderness, and moreover, a jarring voice to public opinion as it then was, and so I concluded to hold my peace, at least in public.

Since then, this aspect of the matter has changed. Without adequately organized support, on its own merits, the sales tax has become a centre of discussion. While still meeting with much opposition and confronted with strong prejudice, for reasons which however sincerely entertained and entitled to respect, are in my opinion based on erroneous assumptions, and while particularly anathema to the representatives of labor unions' and farmers' organizations, the arguments for, and advantages of, the sales tax have come to be understood and appreciated in wide circles. The Democratic candidate for the Presidency in the last campaign pronounced himself in favor of it. Men high in the councils of the Republican party have endorsed it. Newspapers of such divergent tendencies as the *New York Times* and the *New York American* have given it their adherence and support. Every recent test has shown that the great majority of the business men throughout the country—and I do not mean primarily "big business," which indeed has rather been hanging back, but the rank and file—have become converted to the sales tax and advocate its adoption. Personally, I have no doubt that if and when the people have once become acquainted with its simplicity, productivity, and "painlessness," it will be recognized for what it is, an ideal means of raising revenue, and will become a permanent feature of our fiscal system.

* * *

Facts About The Sales Tax

So much has been written and spoken on this subject that I shall not attempt on this occasion to explain or defend the sales tax with detailed arguments, but shall confine myself to the following few summary observations:

(1) The sales tax is not an untried thing. It is in successful operation at our very door, in Canada; likewise in the Philippines.

(2) Conservative estimates have shown that a one per cent tax, on sales of commodities only and exempting initial sales of farm crops and live stocks, and also exempting annual turn-overs up to six thousand dollars, would produce for, say the next twelve-months-period, from one billion two hundred million dollars to one billion three hundred million dollars.

(3) Careful calculations have demonstrated that

adding a one per cent tax upon every stage of manufacture from the original producer of the raw material to the ultimate consumer of the finished article will average an addition to final costs of not more than three per cent. That is less than the addition to final costs which the public now pays through the existing practice of shifting taxes by "loading" prices in a more or less haphazard way. The incidence and amount of the sales tax can be so plainly traced as to prevent its being used for unfairly pyramiding or "loading" of prices.

(4) The argument is often heard that the sales tax would benefit large combinations controlling several phases of the manufacture of their product, from raw material to the finished or semi-finished article, as against smaller corporations or the individual handling only one process. To the extent that this argument rests on any substantial basis of fact, which I do not believe, it can be met by appropriate provisions of law.

(5) The sales tax practically collects itself. It needs no host of chartered accountants to advise the tax payer as to the making of his return, it needs no inquisitorial processes and no army of officials. The Canadian Minister of Finance is reported to have stated recently that the sales tax in that country was administered smoothly and satisfactorily by forty government employees.

(6) After careful study and comparison of views, I am satisfied that the various practical and other objections which have been brought forward by fair critics of the sales tax, to the extent that these objections have validity, can all be taken care of by suitable provisions of the enactment.

Exactly what shape and scope a sales tax should have, has been a matter of considerable discussion among those who favor such a tax. The predominant view, which I share, is that it should not be a tax on retail sales only, for various reasons, one of them being that a simple, certain and workable definition of what constitutes a retail sale, defies the resources of phraseology. Personally, after much reflection on the pros and cons of the different forms of a sales tax, I am in accord with what I believe to be the majority of those advocating a sales tax, in favoring a tax (at a very low rate) limited to commodities and exempting initial sales of farm crops and live stocks and further exempting such turn-overs as aggregate annually, not exceeding six thousand dollars. (For the sake of simplicity and convenience certain other minor exemptions at the last stage of the selling process, *i. e.* selling to the public, might be found advisable). The rate of the tax should not be above one per cent; I should, indeed, prefer one-half of one per cent, to begin with.

All I am advocating is that a fair trial be given to the principle of a well-conceived sales or turn-over tax, so as to test it in actual practice.

In the matter of raising by taxation the vast amounts required as a legacy of the war, we are dealing with a problem which is largely new and in which we have little precedent to guide us. Whether we agree or not as to the extent of the evils flowing from the taxation now in force, it will, I suppose, be admitted universally that the present system is more or less of a makeshift and susceptible of improvement. I am far from claiming that the counsels which I venture to offer, are free from ex-

ception. What I urge is simply that we should all approach this complex subject with sufficiently open minds to do some reasonable and circumspect experimenting in order to see what works out best.

No complex and cumbersome machinery is required to bring the sales tax into operation. Should it not prove satisfactory to public opinion, contrary to my expectation, after having been in effect for a sufficient length of time to test its workings, let it be abolished.

* * *

Reason and Moderation Must Guide

I realize that some of the things I have said on the subject of taxation coming from the lips of a denizen of Wall Street, are apt to fall jarringly on ears which they may reach outside of this gathering, and lend themselves to the interpretation of springing from selfish bias. My defense is that I thoroughly believe these things to be true, and that every one who aids in good faith to ascertain the real facts and bring them before the forum of public opinion, as against the mirages of ignorance, prejudice, or demagoguery, is usefully engaged and should receive unprejudiced hearing, whatever his occupation or station in life.

I yield to no one in my desire to see brought about the greatest attainable measure of well-being for all the people. I recognize to the full the obligations and duties, material and moral, resting upon those to whom success has come in the game of life. I would not willingly or knowingly place any burden on shoulders already bent under the daily strain of meagerly remunerated toil. On the contrary, I would join gladly in every effort, movement, or enactment, consistent with reason, experience, and sane recognition of the realities of things, to make life more worth living to the rank and file of Americans, to augment the opportunities and the happiness of the mass of the people and to enhance their share of ease and comfort.

But I am entirely convinced that crushing and bungling taxation of capital and industry is not the way to accomplish that result. I am convinced, on the contrary, that such defiance of wise moderation and economic law is bound to redound to the detriment of all the people. I am convinced that unless and until the errors of our taxation policy are remedied, America will fail in attaining that degree of prosperity and accomplishing that measure of general well-being which are open to a nation in whose domain abounding natural resources are coupled with racial qualities that in the past have found conspicuous expression in zest for work, daring enterprise and broad-gauged achievement.

The social and economic welfare of the country is inseparably connected with the welfare of its industries. The return to normal conditions of industrial activity is, at the moment, our most urgent national need. It cannot be accomplished, I believe, without a wise and courageous revision of our tax laws.

That revision, to be effective, must eschew preconceptions and animosities and be willing to recognize tested and proven facts. It should give satisfaction neither to the reactionary or selfish shirker, nor to the agitator or "advanced thinker." I am convinced that tax revision contains a good deal less

political dynamite than many of those in public life appear to think. I believe the people do not greatly care by what methods relief is obtained from the present unsatisfactory situation, provided they do get effective relief.

* * *

Educational Campaign Needed

What, then, can we do towards helping to deal wisely and soundly and in a way most conducive to the common weal, with the economic problems that confront the nation? To rail at Congress, to throw bricks at the agricultural bloc, to pass stately resolutions, accomplishes no useful result. To meet at dinners and banquets, where those whose occupations and views are generally alike tell their ideas to one another, is pleasant enough, but I venture to doubt the efficacy of such gatherings as affecting public opinion. I should be hopeful of a good deal more usefulness from meetings in which those of differing stations, callings and viewpoints sat down together for a frank interchange of opinions; and I sometimes speculate upon the thesis of how much of public value could be accomplished if even a fraction of the amount now spent on public or semi-public "speech-making" dinners of the conventional kind (and that amount aggregates an amazing total) were devoted to the purpose of bringing the beliefs, aims, and arguments of the business community before the people at large in an effective way.

If we believe—as I most earnestly do—that the views which we hold on the subject of taxation and other economic questions, are more nearly right and their carrying into effect more beneficial to the country than those which are advocated by others and some of which have found expression in the acts of Congress, our remedy is to start an intensive "campaign of distribution" of these views.

Effective distribution is one of the secrets of success. Whether it be items of information, ideas, political views, inventions, or whether it be stocks or bonds or crops or manufactured articles, their value only becomes realized when they are distributed among the people.

The methods of the wise, experienced, and trustworthy salesman are the instrumentalities needed to launch the wares of our convictions upon the great market of public opinion. If they are better wares than those which our competitors in that market have to offer, they will prevail.

But even the best of wares don't sell themselves. They must be pushed and advertised to make a place for themselves, especially when their value is less in their tempting appearance than in their solid substance and their tested wearing qualities, and when they are matched against loudly, persistently, skilfully, and not always too scrupulously, advertised goods of a more showy kind. Our campaign of distribution of the wares for which we desire to secure the patronage of the people must be characterized not only by skill, energy, patience, and persistency; but also by the elements of good will, human sympathy, fairness, consideration for differing viewpoints, and, above all, sincerity. It is worse than useless in the long run, to attempt to palm spurious goods upon the people, and it is the mark of the unskilful salesman to try to sell his wares by black-

guarding his competitor and unjustly disparaging rival merchandise.

And it is not so much the middle-man, *i. e.* the politician, whom we must seek to reach and convince, though his co-operation is, of course, greatly to be desired, as his constituents, the ultimate consumers, *i. e.* the people. I have complete faith in the sound common sense and the right-mindedness of the American people. When the pros and cons of a proposition have been set before them fully and frankly, the great majority of the plain people can be trusted to form right conclusions and to reject fallacies, however appealing and plausible. Too often, it seems to me, the integrity, the discernment, and the essential moderation of the collective mind of the people is underestimated by those in political life or seeking to enter it. I have frequently wondered at the tendency of so many politicians to seek popular favor by flattery and pliancy and an obsequious "ear to the ground" attitude, when all experience has shown that the royal road to the lasting allegiance of the people leads along the heights of their respect and confidence, to be attained by independence, moral courage, intellectual honesty, and broad-gauged performance.

* * *

Co-operation Called For

In sounding the call for a campaign of distribution of views which we believe to be sound and making for the welfare of the country, I have in mind not merely the problem of taxation, important though it is, but matters even more fundamental.

We have passed through a period of severe depression and we have not yet emerged to broadly diffused prosperity. Grave maladjustment still exists. The volume and the results of industry are still greatly below normal. Our export trade has shrunk severely. Much unemployment is still with us. The great and vital industry of agriculture is still in the throes of serious distress, intensified by the fact that the things which the farmer needs and must pay for have not declined in price to anything like the extent to which those things have declined which he produces.

In order to accelerate our emergence into the light of prosperity, the order of the day must be co-operation, mutual helpfulness, and respect for one another's viewpoints and legitimate claims. Let us so think and act that the farmer will learn to overcome the prejudice which makes the name of Wall Street to him synonymous with oppression, obstruction, and antagonism to his interests and needs. Most of the proposals of the leading and responsible spokesmen of the farming community, as far as they relate to securing generally better conditions and instrumentalities for the conduct of their industry, appear to me reasonable and justified by the circumstances, as I understand their program and their problems.

Let Wall Street try and help them to secure such conditions and put its business experience at their disposal to solve their problems. On the other hand, let us point out to the farmer that he has been misinformed or insufficiently informed in certain matters relating to business and economics, and let us ask him and his leaders to reconsider their position and to cease from denying to us needed relief and

from pursuing policies which do him no good and do us harm, and, indeed by virtue of the interdependence of all sections and callings, do him harm likewise.

Let us give enlightened and sympathetic thought and understanding to the problems besetting the working man. I know it will be very difficult to get his confidence, but at least we can so act as to merit it. As employers let us bear in mind that it is in our best interest, even from the merely selfish point of view, not to pay the lowest wages to which labor can be squeezed down, but rather the highest wages compatible with the successful maintenance of the country's business and with a reasonable level of prices to the consumer.

* * *

Economic Delusions vs. True Remedies

It is a fact well attested by history, in our own country and elsewhere, that out of the stagnation of serious and long-continued industrial depression springs the poison-growth of economic delusion. And there come forth in such times a number of those who mistake that harmful growth for a healing plant, incited to that belief, or encouraged therein, by leaders who are self-deceived, or deliberately bent on deceiving to serve their own ends. By the admixture of the ingredients of ignorance and emotional "cocksureness" together with the deleterious substances of envy and demagoguery, fantastic things are concocted and offered to the people as remedies, when, in fact, they are as blinding and maiming as wood-alcohol.

It is a characteristic of such periods that there are brought to the public notice, loudly and fervently, sundry cure-alls for the ills of the day which their discoverers proclaim—and often honestly believe—to be new and unfailing remedies, but which, as a matter of fact, are hoary with age, having been tried on this old globe of ours at one time or another, in one of its parts or another—tried and found wanting and discarded after sad disillusionment. Nothing in history is more pathetic than the record of the instances when one or the other of the peoples of the world rejoicingly followed a new lead which it was promised and fondly believed would bring it to freedom and plenty and happiness, only to find itself, instead, suddenly on the old and only too well-trodden lane which goes through suffering and turmoil to disappointment and reaction.

We may not flatter ourselves with the hope that the present period will prove an exception. A philosopher has said that the greatest lesson of history is that humankind refuses to learn and heed the lessons of history. Once more, the raucous voices of the promoters of economic, social, and political quackeries and of the vendors of tickets to Utopia are being heard in the land. Even the dead bones of green-backism and fiat money are being taken from their unhallowed resting place and an effort is being made to breathe life again into that skeleton.

We must not put our heads into the sand in the face of these menacing signs of the times, nor must we be in fear of them, or permit ourselves to be unduly wrought up. We cannot meet them by blunt denials or by calling hard names. Social and political economics, the functions of capital, the problems of trade, and so forth, are complex and difficult sub-

jects. They lend themselves all too easily to fallacies, misinformation, and misinterpretation.

It is one of the proper and indeed necessary functions of organizations of business men to aid in spreading true information on such matters among the people, to give facts and figures and reasons, to justify and explain, and to meet destructive agitation, whether of the scheming demagogue or the well-meaning Utopianist, on its own ground of propaganda. We must seek to counteract false or irresponsible or ignorant assertion with plain, patient, and truthful explanation, but we must be sure to keep our own minds open to the merit of new ideas, we must be ready to welcome progress, we must do our share, in good faith and willingly, to redress grievances and to aid in bringing about the greatest attainable degree of well-being for all the people.

If we fail to play our part in contending for the right, we have no just title to complain if things go wrong.

Just as the price of Liberty is eternal vigilance, so eternal effort in resisting error, in striving for genuine progress, and in spreading and defending the immutable principles and doctrines of truth and reason, is the price of good government in a democracy.

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